

2012 Seminar on Vietnam-Korea FTA Negotiations
December 12-14, 2012 / Vietnam

Korean Enterprises' View on the **Korea-Vietnam FTA**

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FTA Information & Business Support Center

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PART I.

KOREA'S GLOBAL FTA NETWORK

Korea's global FTA network is providing **freer, speedier, and more competitive expressways for the global trade and investment community**

◆ **Current Status**

- The 8 FTAs are already in effect with 45 countries including **the EU, the U.S. and India as well as the ASEAN.**
- A bilateral FTA is in negotiation with **Vietnam.**

I. Korea's Global FTA Network

In effect (45 countries)



Chile
(Apr. 2004)



Singapore
(Mar. 2006)



EFTA
(Sept. 2006)



ASEAN
(June 2007)



India
(Jan. 2010)



EU
(July 2011)



Peru
(Aug. 2011)



U.S.
(Mar. 2012)

In negotiation (13 countries)



China



Australia



Mexico



Vietnam



Canada



Indonesia



New Zealand



GCC

Under consideration (14 countries)



Korea-China-Japan



Japan



Mongolia



Malaysia



South America



Israel



MERCOSUR



PART II.

IMPLEMENTATION OF AKFTA

II. Implementation of AKFTA

1. Status of AKFTA

- Negotiations for Korea-ASEAN FTA launched in **Nov. 2004**
- Officially signed **Goods** Agreement on **24 Aug. 2006**
- **(Vietnam) Goods Agreement entered into force on 1 Jun. 2007**
- Korea, Singapore, Indonesia, Malaysia, Myanmar
- Officially signed **Service** Agreement on **21 Nov. 2007**
- Officially signed **Investment** Agreement on **2 Jun. 2009**

< FTA Utilization Rate >

- Imports from Korea utilizing FTA is **relatively low** among Korea's other FTAs.

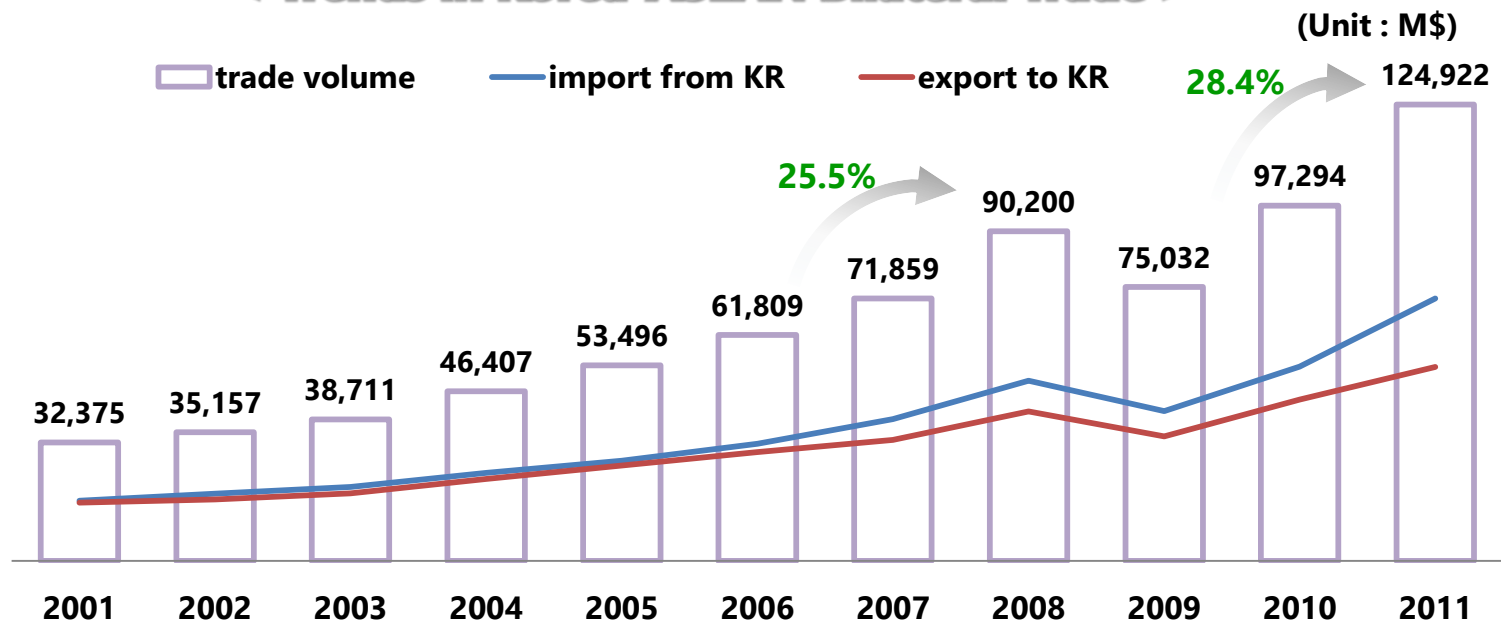
	Chile	ASEAN	India	EU	Peru	U.S.
Exports to Korea	95.8%	73.8%	53.6%	59.4%	52.6%	55.5%
Imports from Korea	85.5%	33.1%	35.8%	78.4%	61.3%	60.6%

II. Implementation of AKFTA

2. Status of trade between Korea and ASEAN

- ASEAN has become Korea's **2nd largest trading partner** in 2011, following China.
- Trade volume between Korea and ASEAN reached \$107.6bil in 2012(Jan-Oct)

< Trends in Korea-ASEAN Bilateral Trade >



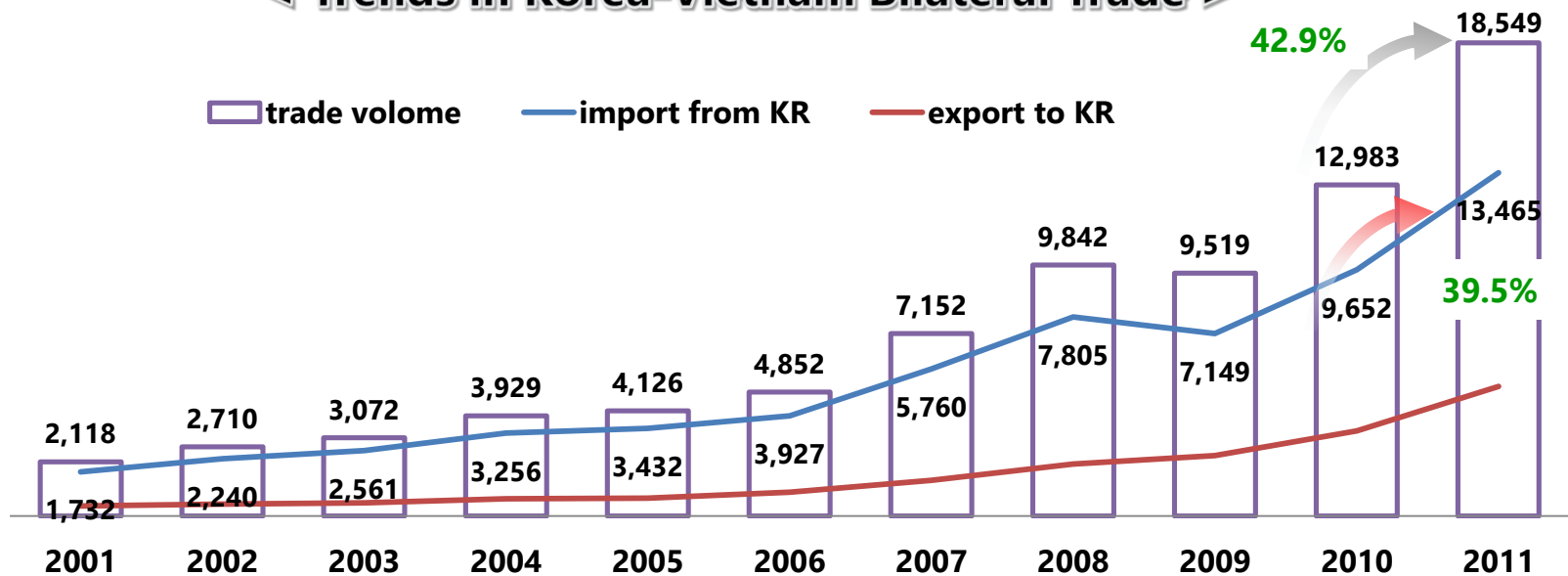
Source : Korea International Trade Association

II. Implementation of AKFTA

3. Status of trade between Korea and Vietnam

- Vietnam is **Korea's 3rd largest trading partner among ASEAN**, following Indonesia, and Singapore, also **8th largest exporting country** in 2011.
 - Imports from Korea has increasing by 7 times over the past 10 years. (about over 25%/yr)
 - Trade volume between two economies hit \$17.6bil in 2012(Jan-Oct)

< Trends in Korea-Vietnam Bilateral Trade >



Source : Korea International Trade Association

(Unit : M\$)

II. Implementation of AKFTA

3. Status of trade between Korea and Vietnam

Korea's Top 10 Exports to Vietnam

#	HS code	Commodity	2006	2007	2008	2009	2010	2011
1	851770	Parts of cellphones	-	6	6	151	658	1,276
2	271019	jet fuel	498	1282	1929	537	565	583
3	271011	Light oils and preparations	21	0	103	181	243	501
4	720839	Flat-rolled products of iron or steel(less than 3mm)	2	14	49	142	307	442
5	854231	Processors and controllers	-	1	2	3	14	301
6	854232	Memories	-	28	19	6	14	292
7	600622	Other knitted or crocheted fabrics(Dyed)	109	176	219	231	278	275
8	720838	Flat-rolled products of iron or steel(3-4.75mm)	1	6	16	55	195	231
9	870899	Parts and accessories of the motor vehicles	25	52	113	154	155	228
10	600410	Knitted or crocheted fabrics	58	105	176	173	186	223

Source : Korea International Trade Association

(Unit: M\$, 2011)

II. Implementation of AKFTA

3. Status of trade between Korea and Vietnam

Vietnam's Top 10 Exports to Korea

#	HS code	Commodity	2006	2007	2008	2009	2010	2011
1	270900	Petroleum oil and oil obtained from minerals, crude.	-	112	183	433	587	920
2	270111	Anthracite	41	52	148	127	180	204
3	620193	Men's or boy's overcoats which are man-made fibers	2	4	10	25	53	119
4	030613	Shrimps and prawns	33	64	66	70	86	112
5	030759	Octopus (except Live, fresh or chilled)	40	50	56	57	70	102
6	620293	Women's or girls' overcoats which are man-made fibers	2	3	7	17	39	90
7	640399	Footwear made on a base or platform or wood and others	20	28	41	46	57	88
8	090111	Coffee(not roasted, not decaffeinated)	48	63	101	56	51	87
9	030499	Frozen fish fillets and other fish meat in bulk and others	-	30	58	41	64	83
10	440122	Non-coniferous	13	15	26	12	47	82

Source : Korea International Trade Association

(Unit: M\$, 2011)

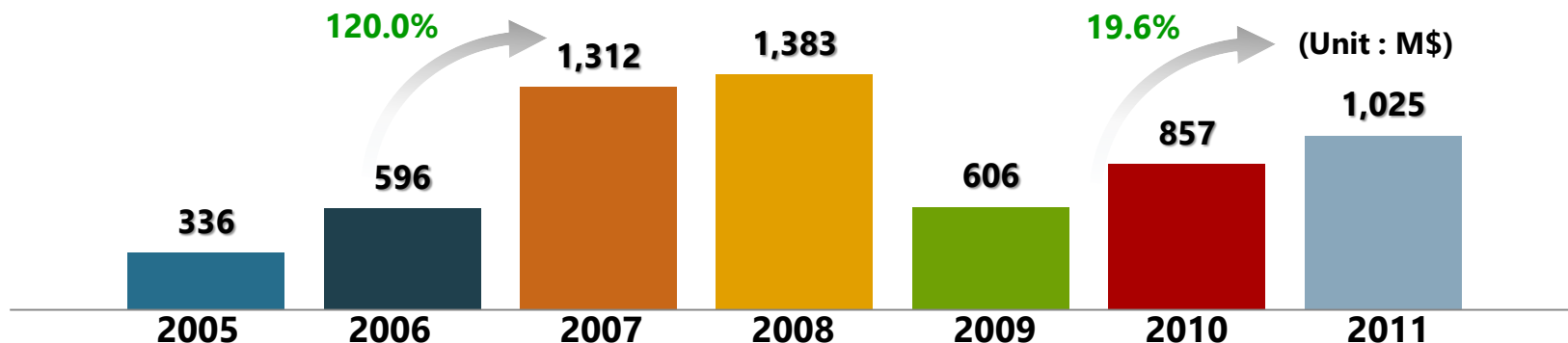
II. Implementation of AKFTA

4. Status of Investments in Vietnam

◆ Attracting Foreign Direct Investment of KOREA

- Vietnam has attracted **foreign direct investment**, and Korea is the **2nd largest** investor in Vietnam.
 - Korea's FDI in Vietnam has increased by 120% in 2007.
- Korea-Vietnam FTA will be new stepping stone in the both economies.

< FDI from KOREA to Vietnam >



Sources: The Korea EXIM Bank, December 2012



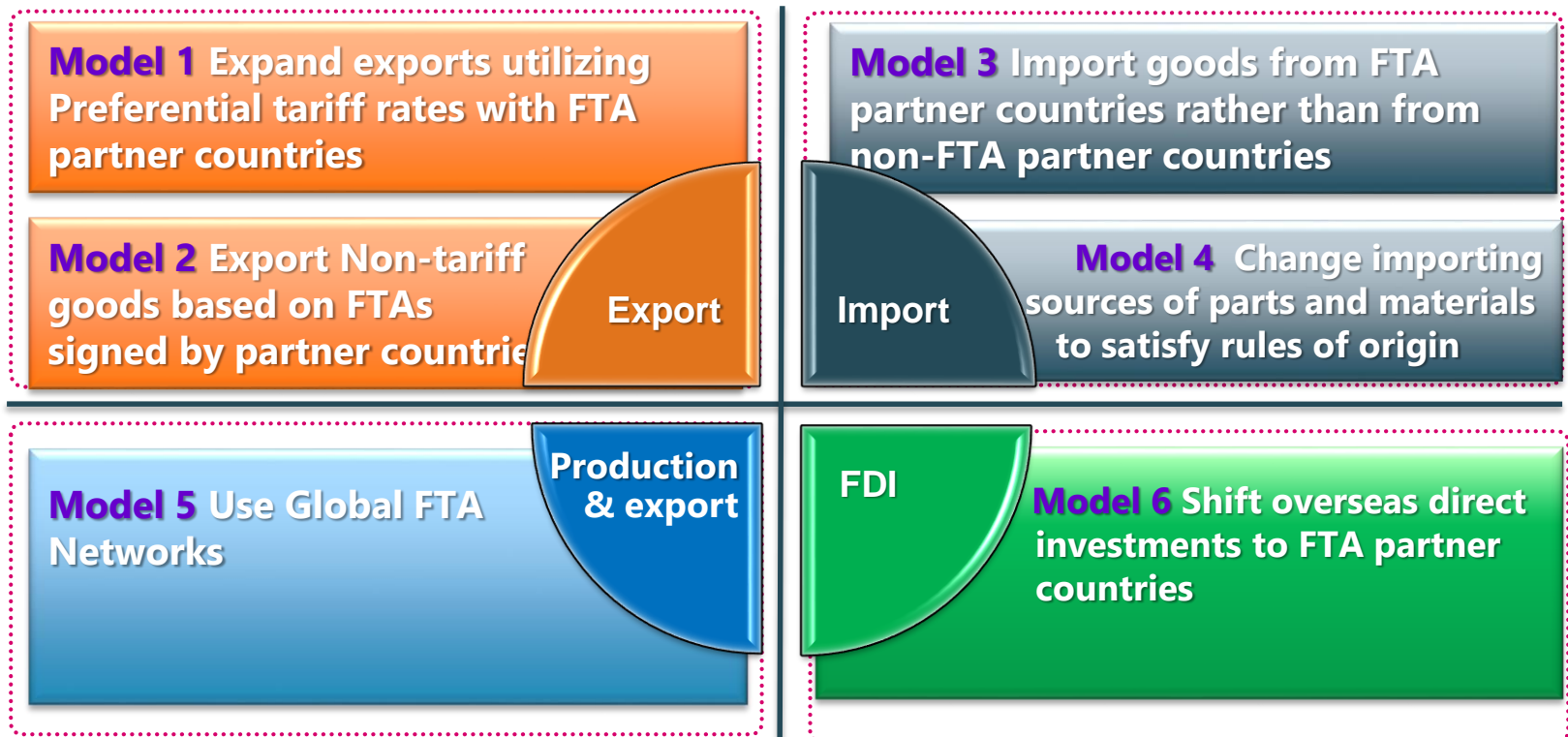
PART II.

FTA BUSINESS MODELS

III. FTA Business Models

Creating New Business Models through FTA

- ◆ **FTA Network allows companies to gain Competitive Advantages by creating various types of Business Models**

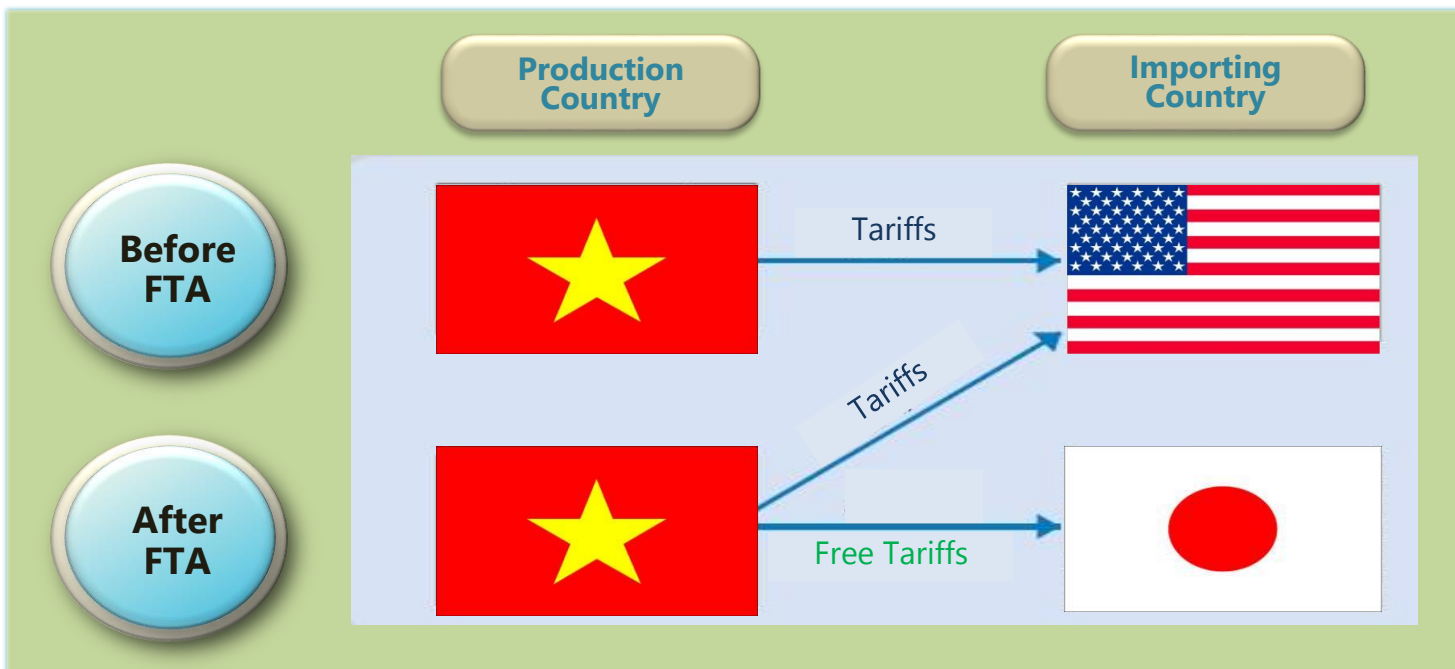


III. FTA Business Models

Model 1. Expand exports utilizing preferential tariff rates with FTA partner countries

◆ Check Points and Strategies

- I. Identify preferential tariffs of FTA partner country
- II. Check whether or not products meet Rules of origin
- III. Consider price strategies and discuss how to allocate FTA preferential benefits between importer and exporter

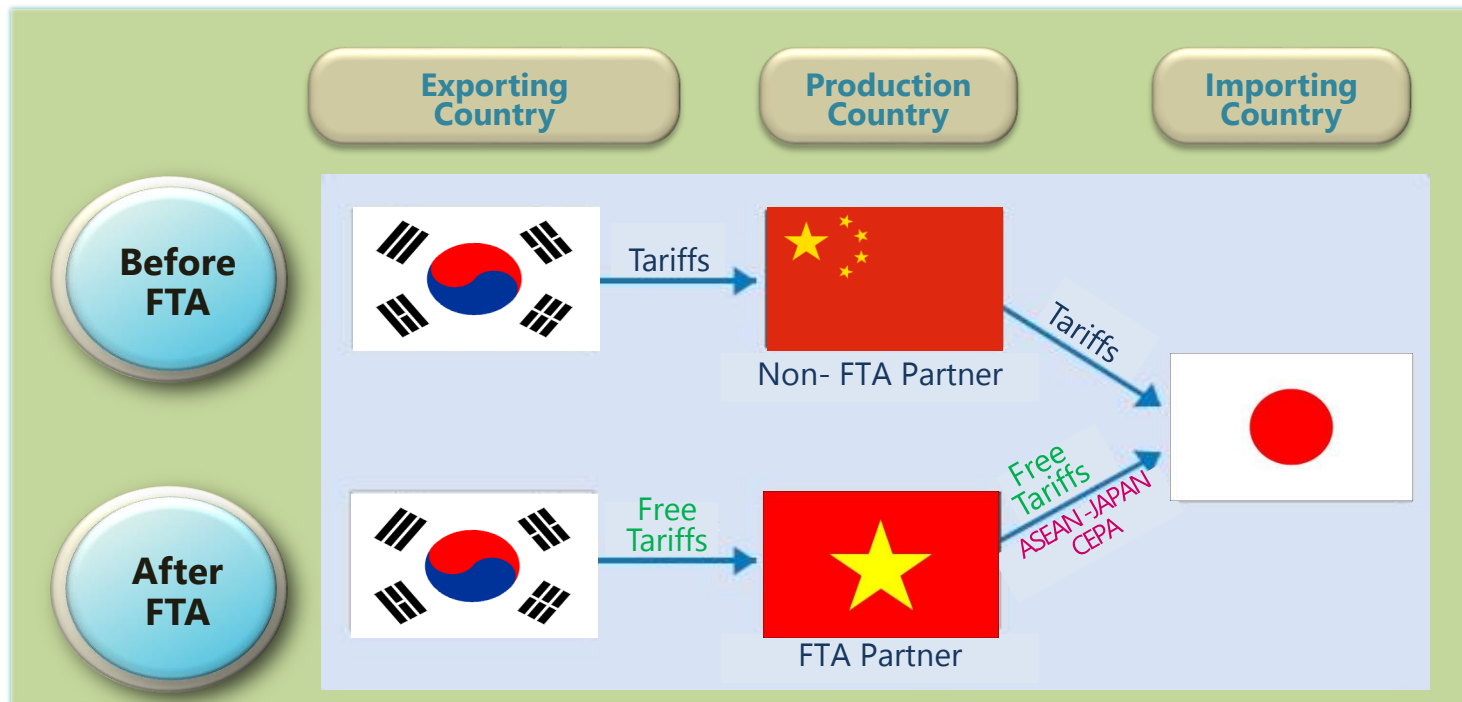


III. FTA Business Models

Model 2. Export Non-tariff Goods based on FTAs signed by Partner countries

◆ Check Points and Strategies

- I. Identify preferential tariffs and Rules of Origin of importing country
- II. Check product image of the production country(Vietnam) in the market of importing country (Japan)

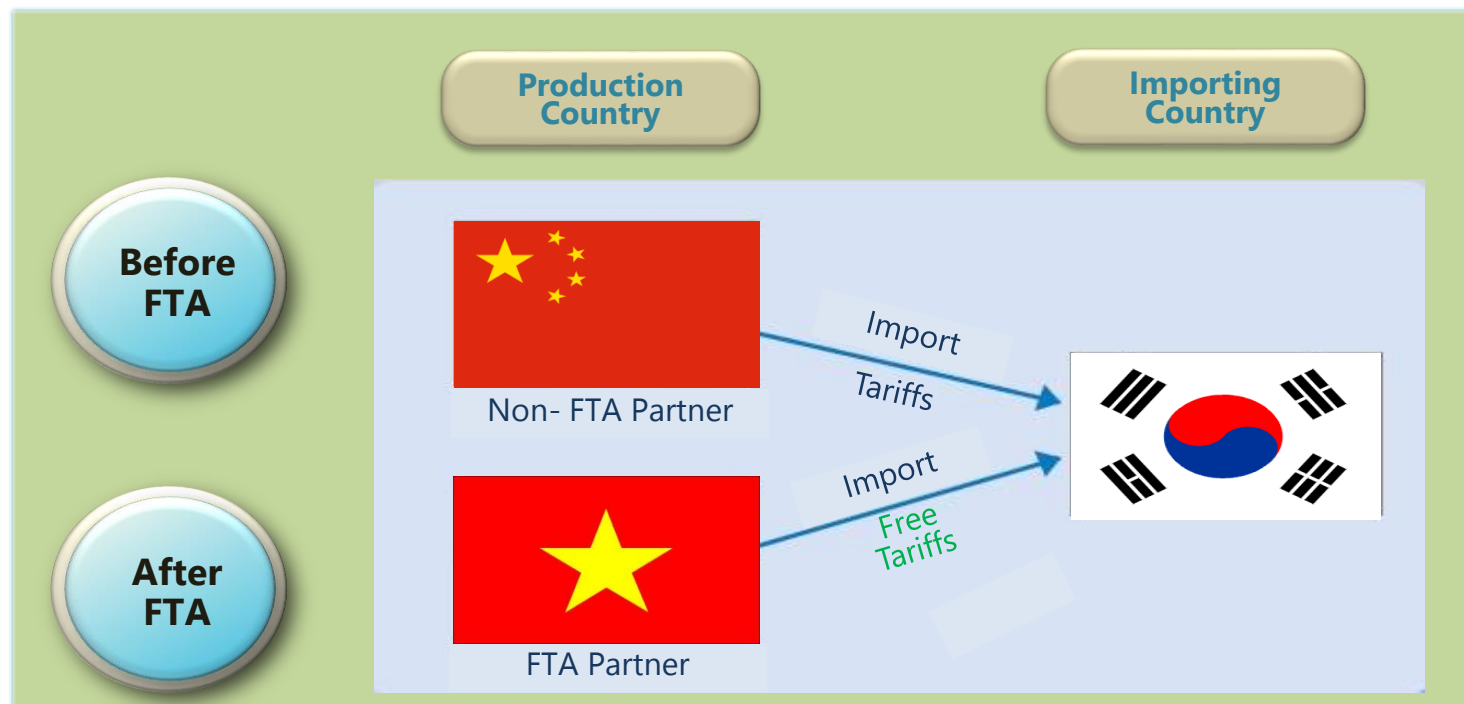


III. FTA Business Models

Model 3. Import Goods from FTA Trading Countries rather than non-FTA countries

◆ Check Points and Strategies

- I. Check preferential tariffs and quality of importing goods
- II. Certify whether or not importing goods meet rules of origin
- III. Consider image and marketability of importing goods

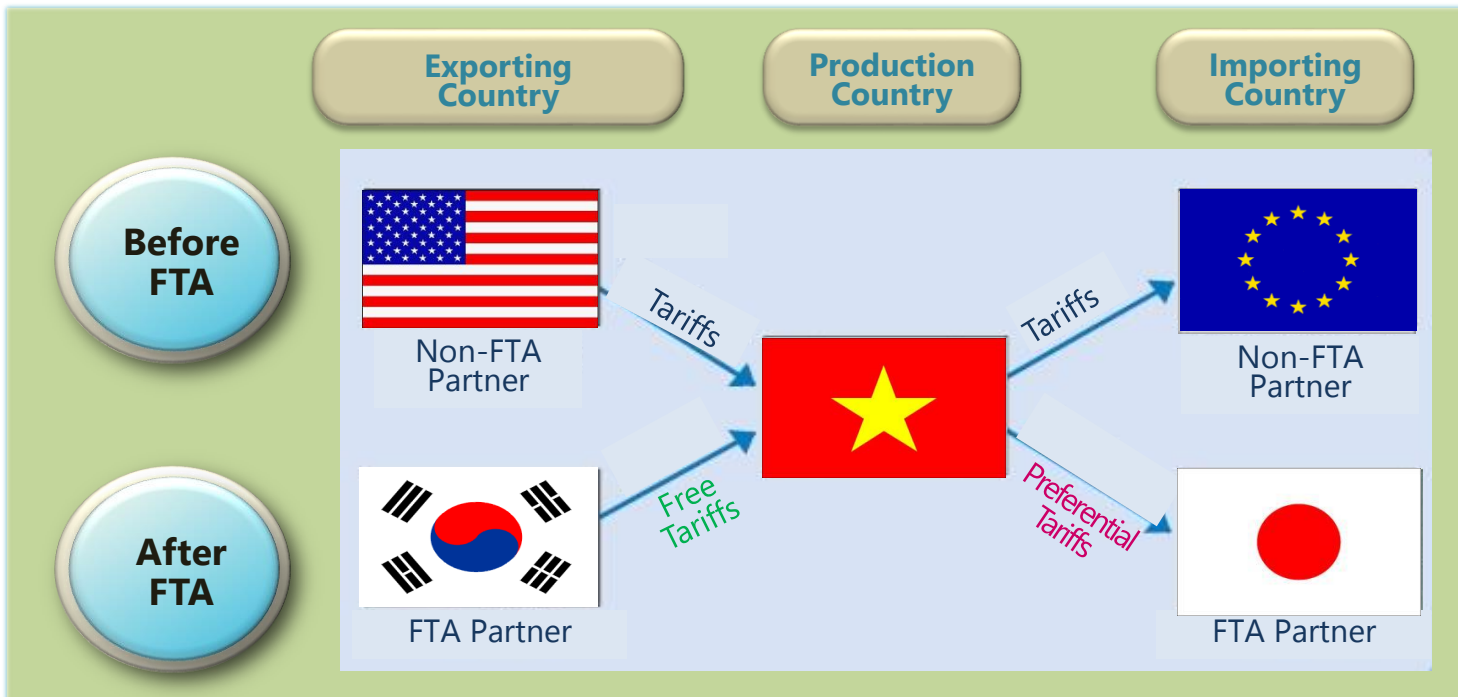


III. FTA Business Models

Model 4. Change Importing Sources of Parts and Materials to satisfy Rules of Origin

◆ Check Points and Strategies

- I. Check importing country's rules of origin
 - This model can only be used when the ad-valorem percentage criterion is satisfied by applying the "accumulation of origin" rule
- II. Consider costs and benefits in changing import sources

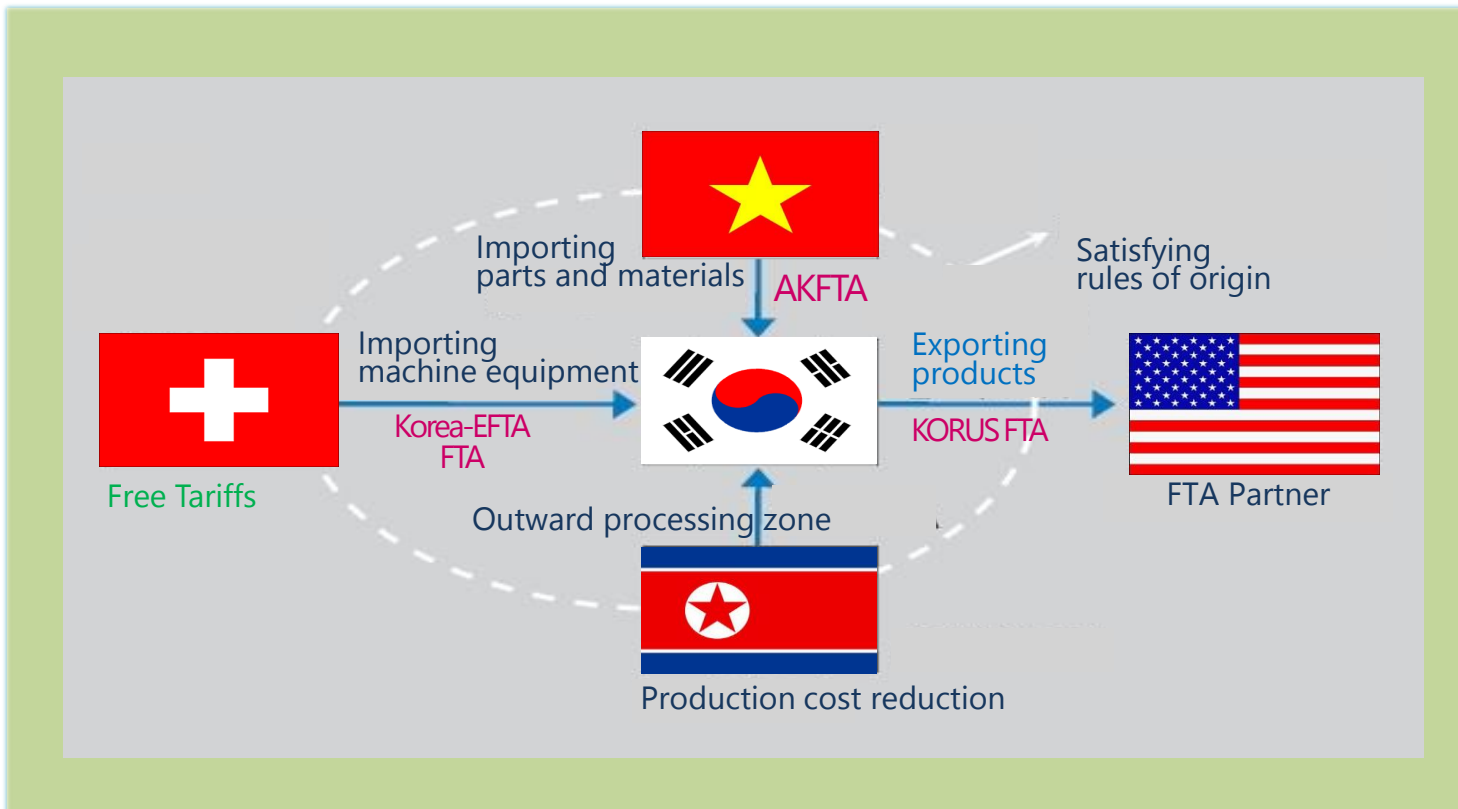


III. FTA Business Models

Model 5. Use global FTA Networks

◆ Check Points and Strategies

- I. Maximize utilization of global FTA networks (Korea, Vietnam)
- II. Set up comprehensive strategies to increase benefits and reduce costs

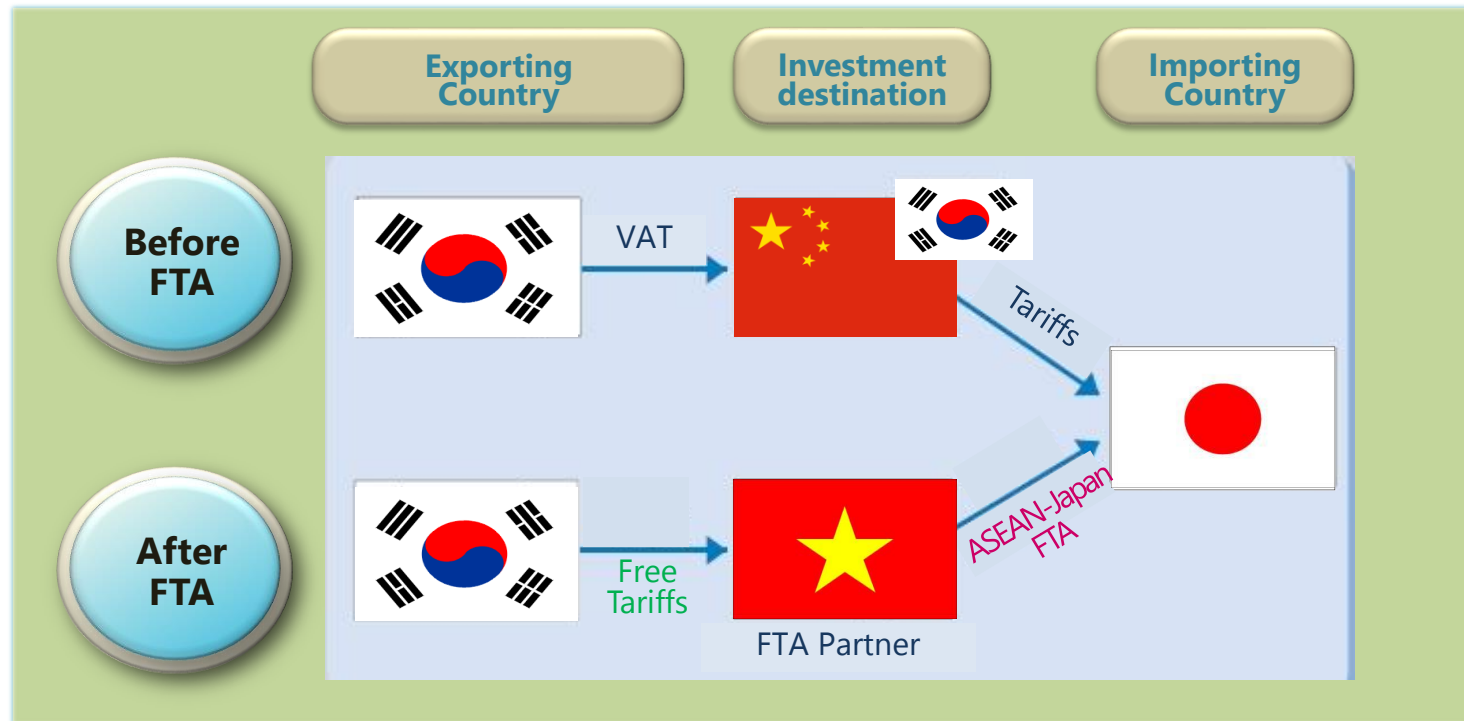


III. FTA Business Models

Model 6. Shift Overseas Direct Investments to FTA partner

◆ Check Points and Strategies

- I. Compare benefits and costs due to changing
 - FTA preferential benefits vs. potential costs and risks
- II. Shift foreign investments to country where more FTAs have been implemented





PART IV.

SOME DIFFICULTIES IN FTA UTILIZATION



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한국무역협회

IV. Some Difficulties in FTA Utilization

1. Difficulties in Classification of HS Codes on Goods and Materials

- ◆ FTA requires accurate **CLASSIFICATION of HS Code on goods** to test eligibility of preferential tariffs and rules of origin
- ◆ In particular, it is essential to have accurate **INFORMATION on HS Codes on materials** used for the exported goods
- ◆ One of the main difficulties that enterprises face are to **ensure accurate information on HS codes on goods and materials** to get FTA preferential treatment

< Burden of HS classification under FTA system >

	Under WTO	Under FTA
Exporters	HS codes on exported goods	HS codes on both goods and materials
Suppliers	No obligation	HS codes on materials

IV. Some Difficulties in FTA Utilization

2. Difficulties of Documentation in Certificate of Origin

◆ Different Rules of Origin by FTAs discourage enterprises from utilizing FTA

< Example of different rules of origin by FTAs >

Items	KOR-US	KOR-EU	KOR-ASEAN	KOR-India
Auto parts (Electric accumulators)	CTH	CTH or MC(45)	CTH or RVC(40)	CTH and RVC(40)
Textile (Overcoats)	CC+cutting/sewing * Yarn forward rule	Specific processing * Fabric forward rule	CTH or RVC(40)	CTH and RVC(40)

◆ Enterprises have difficulties in **ORIGIN DETERMINATION** on their exported goods

- Especially, quite burdensome to calculate and prove **REGIONAL VALUE CONTENT(RVC)** requirement to originate.

◆ Suppliers of materials also have considerable burden in providing **certification or affidavit of materials' origin** to producers of goods

IV. Some Difficulties in FTA Utilization

3. Concerns on Origin Verification

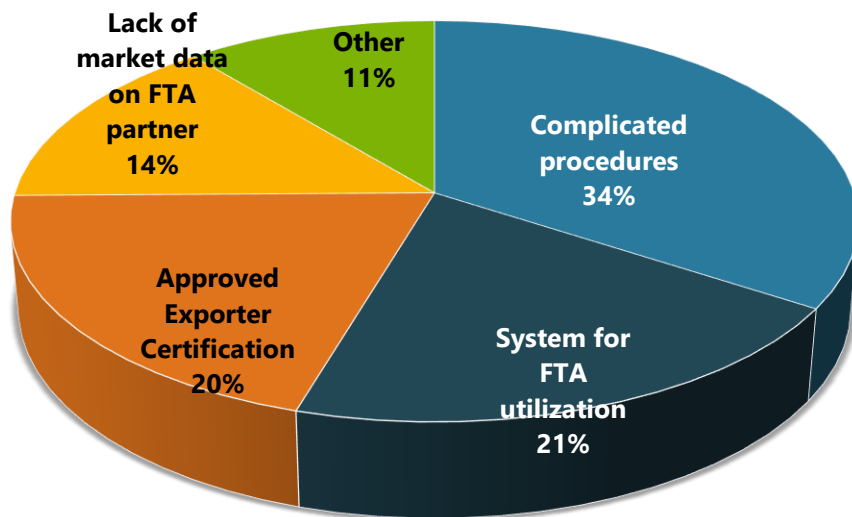
- ◆ **Obligation of Recordkeeping** for origin verification is burdensome
 - An exporter should be keeping documentations of the origin verification of goods for at least 5 years after the date of the certificate of origin(C/O) signed
- ◆ **Procedures on origin verification** need to be transparent and predictable
 - Information on regulations, methods and process relating origin verification needs to be sufficiently provided
 - In particular, procedures and methods on origin verification are not harmonized among FTA partners

According to the Korea Customs Service, **153 requests** from foreign customs authorities filed in 2012, accounting for nearly 60 percent of the total **258 requests** submitted between 2008 and 2012. In particular, requests from the European Union are more than tripled to **135 cases** in the first eight months of this year from last year's 41.

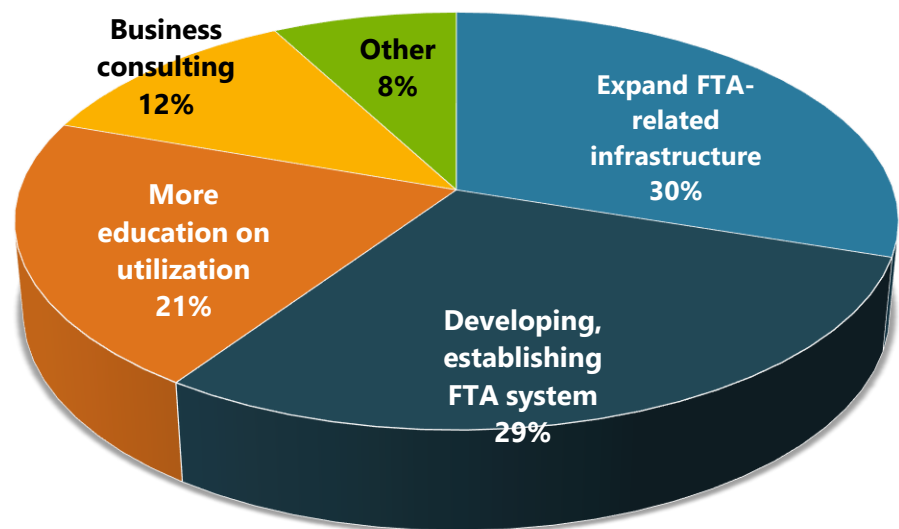
IV. Some Difficulties in FTA Utilization

4. Requests of SMEs to Enhance FTA Utilization

◆ Challenges



◆ More assistance needed in..



Source : Korea International Trade Association, 2011, 370 companies



PART V.

KOREA'S SUPPORT PROGRAMS FOR FTA UTILIZATION

V. Korea's Support Programs for enterprises' FTA Utilization

1. Establishment of One-stop FTA Support System

FTA Policy Coordination

Policy Committee on FTA

- Minister of Strategy&Finance and Non-governmental Delegate co-chaired
- Joint Board : 26 people of Governmental and Non-governmental Delegates

Policy Council on FTA Utilization

- Vice Minister of Strategy and Finance chaired
- Representatives from Ministries and Non -overnment organizations

One-stop Support System



V. Korea's Support Programs for enterprises' FTA Utilization

2. Providing One-stop Service on FTA Information

◆ Internet web site(www.tradenavi.or.kr, www.okfta.or.kr) to provide integrated information on FTAs

- Functions of search engine as **HS code, tariff rate, rules of origin, legal text of FTAs and government's support FTA programs, etc.**

* About 200,000 page views per month

국가선택	미국 U.S.	검색조건	HSKCode	54076111	HS CODE	결과보기
상대국 HS Code	Product Description				열기	
관세정보	TBT통보문	환경규제	인증규격	수입요건	전략물자	
기본관세율 (MFN rate)						
기초세율 19.4%/kg + 18%						
FTA 협정세율 (FTA Preferential rate)						
FTA 협정 세율 Free 타협정세율 (미국이 체결한 타협정 세율 조회)						
발효일자 2012.03.15						
원산지기준(PSR) Rules of Origin						
HS Code (2002 기준)	PSR설명				결정기준	
54076111	세번항목 제5402.4310호, 제5402.5210호 또는 다른 류에 해당하는 물품에서 세번항목 제5407.6111호, 제5407.6121호 또는 제5407.6191호에 해당하는 물품으로 변경된 것. (제5106호 내지 제5110호, 제5205호 내지 제5206호, 또는 제5509호 내지 제5510호로 부터의 변경은 제외한다.)				세번변경기준	

V. Korea's Support Programs for enterprises' FTA Utilization

2. Providing One-stop Service on FTA Information

◆ Introduction of **mobile App.** for smartphone (<http://m.okfta.or.kr>)

- To provide FTA information in a way of anytime and anywhere available
- Functions of Mobile inquiry & response, SNS, etc.



◆ Offering FTA information for foreign exporters in English version (<http://fta.customs.go.kr/portalIndex.html>)

- Functions of HS code, customs clearance procedures, certificate of origin, origin verification and KOR-US FTA guides, etc.

V. Korea's Support Programs for enterprises' FTA Utilization

3. Establishment of Regional FTA Support Centers

◆ **16 regional FTA Centers** nationwide assist rural SMEs to utilize FTAs and gain benefits from FTA

◆ Established in regional **chamber of commerce** or **regional offices of KITA**

* KITA: Korea International Trade Association

- The centers offers FTA consulting service, seminars and workshops on FTAs



V. Korea's Support Programs for enterprises' FTA Utilization

4. Providing Customized FTA Utilization Consulting Service

◆ Operating 24 hour FTA Call Center (1566-5114)

- To solve the problems which SMEs face in utilizing the FTAs
 - Over 6,000 cases of consulting service since Feb. 2012 (40 cases a day)

◆ Providing On-site Consulting services

- To assist SMEs' documentation on certificate of origin, etc.
 - Over 3,000 cases of assistance for SMEs since 2010
- Details: FTA Business Model consulting, HS code, Customs clearance, C/O, Professional assistance on FTA management system and origin verification

V. Korea's Support Programs for enterprises' FTA Utilization

5. Capacity Building of SMEs for FTA Utilization

◆ Holding of seminars, workshops on FTA utilization

- KITA and industry associations jointly hold FTA Workshops by industries (auto parts, textile, machinery, footwear, electronics, agriculture)
- KITA and local governments open Joint Seminars for rural companies
- KITA hosts FTA conferences in the major industrial parks

◆ Operating education programs for FTA specialists

- To open FTA undergraduate programs in 41 universities
- To operate '**FTA School**', advanced courses for SMEs in KITA

V. Korea's Support Programs for enterprises' FTA Utilization

6. Supporting FTA-based Foreign Marketing

◆ Assisting business matchmaking

- KITA and KOTRA hold business matchmaking events to link domestic SMEs capable of FTA utilization and foreign buyers
- KITA offers FTA consulting service for SMEs and KOTRA invites foreign buyers and assist business matchmaking between buyers and SMEs capable of FTA



◆ Participating of FTA section in international exhibition events

- KITA sets up FTA section in major international exhibitions and provides information on benefits of Korea's FTA network



Thank You !

We are always here to help with
any questions you may have on FTAs

FTA Information and Business Support Center

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